Case Study

India’s Largest Online Insurance Aggregator

Service(s) Offered: **Fair Market Valuation for Financial Reporting**

Sector/Industry: **Insurance**

Fair Valuation of the Leading Indian Online Insurance Aggregator for a Hedge Fund

Our client (Client) is a leading India-focused hedge fund making **concentrated long-term investments across diverse sectors**. As part of their portfolio, they have multiple investments in the Indian e-commerce industry, one of which being India’s Largest Online Insurance Aggregator.

For the purpose of **financial reporting**, the Client engaged Nexdigm to determine the **fair market value of their investment** in the said online insurance aggregator (Company).

Approach

Our approach was bifurcated into the following phases:

Phase I: Understanding the Business and Industry Dynamics (Research)

Understanding the Client’s business and industry dynamics along with the identifying factors influencing the insurance industry in India.

Phase II: Evaluation of Valuation Approaches/ Methodologies

Assessing various valuation methodologies and applying the most suitable valuation method to calculate the fair market value of the Company.

Phase I - Research

We established our preliminary understanding of the industry using proprietary databases and research reports. We then adopted a **top-down approach** in order to understand the **future outlook** of the online insurance industry.

We analyzed the **digital influence** across different industries at different stages of a transaction (pre-purchase, purchase, post-purchase, etc.) in the Indian context. We then analyzed the **historical and probable growth** in the usage of internet at a macro level throughout the whole economy. Our analysis showcased that the Indian insurance industry was still at a **nascent stage**, however, it was also one of the most digitally influenced industries in India. This gave us valuable insights into **customer behavior** and preferences with respect to insurance.

Once we had a macro perspective of the industry, we started scrutinizing the minutes of meetings with management and industry experts as well as investor meets to gain insights about:

- Future plans and growth prospects
- Competitor benchmarking and market share in various segments of insurance (viz. health, motor, life, travel, etc.)

- Possible Insurance Regulatory and Development Authority of India (IRDAI) regulations that could be disruptive

We also analyzed the **historical monthly MIS** of the Company to obtain qualitative and quantitative information of the revenues, costs, and margins of each segment.

Phase II - Evaluation of Methodologies

We started by evaluating the possibility of applying the Price of Recent Investment (PORI) methodology to value the Company. However, due to **higher than expected growth** and a significant gap of time since the last transaction, it was concluded that applying PORI was not suitable.

Taking into consideration the nascent stage of the Indian online insurance industry and the available information, we considered various valuation approaches and methods. We identified the following methods to value the Company:

Comparable Transaction Method (CTM)

We analyzed the most **recent transactions** in the online insurance aggregation industry. We calculated the price to sales multiples based on **comparable transactions** and applied a premium to arrive at the adjusted multiple for the following considerations:

- Company's plan to go for an Initial Public Offering (IPO)
- Nascent stage of online insurance aggregation industry
- Recovery trend of the Company's profitability

The Company's sales, as on the valuation date, was applied to the adjusted multiple to arrive at the equity value of the Company.

Comparable Companies Method (CCM)

We conducted a **comprehensive search** to identify publicly traded companies in India which were engaged in a similar business. As there was an **absence of such peers in India**, we screened for publicly traded peers outside India. We identified a **foreign-listed peer** which was engaged in an online insurance aggregation business. We calculated the average Enterprise Value (EV) to Sales multiple of the identified peer for the trailing twelve months.

We made a **country-risk adjustment** to the Sales multiple to adjust for **macro economic factors** such as future growth, addressable market size, etc. between the peer's country and the Company's country.

Furthermore, a premium was applied considering the following aspects:

- Expanded scope of business of the Company vis-à-vis its peer (i.e. the Company is not only engaged in lead generation but also provides end-to-end services to its customers)
- The Company's widespread business across diverse segments in the online insurance industry vis-à-vis its peer's concentration in motor insurance
- Rising contribution margins indicating that the Company will turn profitable in the foreseeable future

We used these to arrive at the adjusted multiple. We applied the Company's trailing twelve months' sales to the adjusted multiple to arrive at the EV. We then adjusted the EV with cash-in-hand, debt and surplus assets.

We also applied a lower discount rate to this value (**considering the lack of marketability** arising from the Company's plan to go for an IPO in the foreseeable future) to arrive at the equity value of the Company.

Impact

After broadly reconciling the valuations under the methods mentioned above, we concluded that **CCM** was the **most suitable method** to arrive at the **fair market value**. We presented our findings along with the **valuation conclusion** to the client in a detailed valuation **report**.

For more information on this case study, please write to us at:

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You can also visit our website to know how our services resulted in tangible business benefits:

www.nexdigm.com